Economic Trends

Robust growth continues

Economic indicators continue to point to a robust expansion in Alberta. Construction in the province continues to ramp up, supported by business activity and the household sector's growing demand for housing. Alberta job growth bucked the national trend in June, posting strong positive gains. This month's inFocus discusses recent trends in Alberta's productivity performance.

Key Indicators

Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	June	2,284	+3.7%
Unemployment Rate	June	4.9%	0.2 p.p.
CPI Inflation (unadjusted)	June	1.9%	-0.4 p.p.
Retail Sales	May	$6.5 B	+6.5%
Housing Starts (annualized)	June	53,699	+41.1%
Rigs Drilling (unadjusted)	July	229	+22.8%
Manufacturing Shipments	May	$6.7 B	+9.8%
Exports (unadjusted)	May	$10.5 B	+21.0%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Household Sector

Canada's Job Engine

Alberta remains the main source of job growth in Canada. June was another strong month, creating 9,400 jobs, the highest monthly gain across the provinces. Since June 2013, Alberta has added 81,800 jobs, compared to a 9,500 decline for the rest of Canada.

Falling new housing stock pushes up housing starts and prices

Alberta's housing market remains strong, driven by a growing population and thriving labour market. Housing starts in Alberta spiked in June to 53,699 units (annualized), the highest level since March 2008, and are up 10.8% year-to-date (YTD).

Calgary has been the centre of Alberta's housing activity. Housing starts have steadily increased and reached 28,376 units (annualized) in June, over half of Alberta's total. Unabsorbed housing has declined since 2010, reaching a historic low in May 2014. Over the same period, growth in the New Housing Price Index (NHPI) has more than doubled (Chart 1). In contrast, despite Edmonton's unabsorbed housing moving down slightly, it remains elevated compared with Calgary. This is tempering pressure on new home prices in Edmonton.

Chart 1: Calgary housing market tightens as inventories fall

Calgary Unabsorbed Housing and the New Housing Price Index

Source: Statistics Canada, Canadian Mortgage and Housing Corporation (CMHC)

Apartments dominate investment

Investment in new housing construction is reflecting the trend in housing starts, up a strong 7.3% year-to-date in May. Growth is being driven by investment in new apartment and multi-unit housing, which have posted double-digit growth so far this year (Chart 2). Single units have been growing at a much slower rate (+3.0% YTD). This may point to a shift in preferences, as Alberta's high in-migration and tight rental market indicate a need for expanding rental and multi units.

Inflation moderates

After several months above 2.0%, inflation in Alberta moderated to 1.9% in June. Energy prices have come down, but shelter continues to put upward pressure on inflation. Despite

headline inflation sitting at only 1.9%, prices for many consumer items purchased more frequently have been growing. Notable increases include meat (+5.7% YTD), fresh fruit and vegetables (+8.7% YTD), and gasoline (+4.4% YTD). In contrast, durable items purchased less requently, like household furnishings, have remained flat. Rising prices for more frequently purchased goods may generate the perception that prices are rising faster overall than the official reading.

Alberta Business Sector

Business activity remains robust

Alberta's business sector continues to see vibrant growth, with manufacturing shipments, exports, and production of crude oil products all expanding at exceptional rates year-to-date. Exports (+21.2% YTD) and shipments (+9.2% YTD) continue to benefit from higher energy prices and production, resulting in some of the fastest growth since early 2012. Rigs drilling has also seen strong growth in the first seven months of the year, up 7.1% YTD.

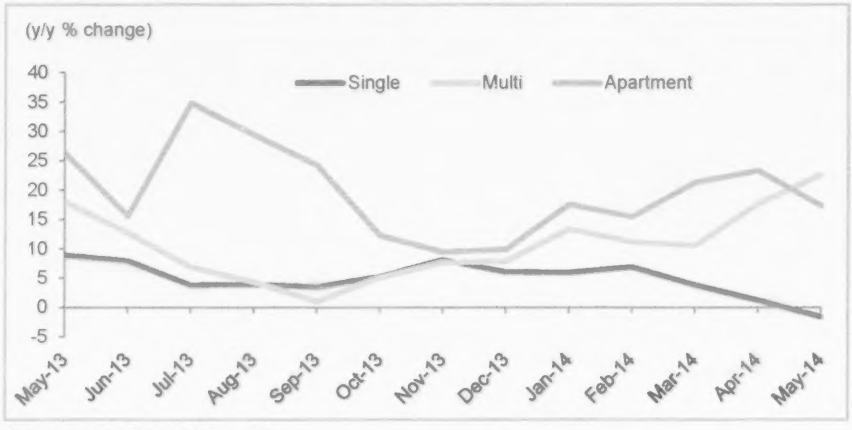
Institutions lead in new investment

Construction spending on institutions has been particularly strong this year, jumping 19.1% in the first half and accounting for much of the 7.3% increase in Alberta's non-residential construction in investment. Commercial investment has also trended higher this year, offsetting a pullback in the industrial sector.

Permits point to further growth

The value of building permits provides insight into the construction intentions in the near future. Residential permit values have increased a healthy 8.4% in the first five months, the result of significant expansion in both apartments (41.1%) and multi-unit housing (20.7%). Meanwhile, after posting negative growth in the first few months of 2014, permit values for non-residential grew 11.9% y/y in May. This follows an exceptional year in 2013, where a number of mega projects in Calgary led to a large spike in activity. Edmonton has been a source of commercial strength this year, with the city's commercial permits up 29.7%.

Chart 2: Growing demand for multi unit housing
Alberta Investment in New Housing Construction



Source: Statistics Canada

Construction costs accelerate slightly

Growth in residential construction costs, as demonstrated by the apartment construction price index, have increased to 2.1% y/y in the first quarter of 2014 after reaching a low in 2013. Likewise, growth in non-residential construction costs has ticked up from 0.9% to 1.9% y/y during the same period. Despite the increase, cost pressures remain contained.

Outside Alberta

BoC downplays higher inflation

The Bank of Canada (BoC) remains neutral on the "timing and direction" of an eventual interest rate change, despite inflation above the central bank's target of 2%. According to the Bank, the fundamental drivers of inflation, most notably domestic demand, remain weak. Inflation is being driven up by the temporary effects of a lower Canadian dollar and higher food and energy prices.

US Growth Bouces Back

US real GDP growth rebounded sharply in the second quarter, hitting 4.0% after declining by 2.1% in the first quarter. Growth was broad based, led by inventory investment, personal consumption expenditures and exports. The acceleration is consistent with other indicators, which show a strengthening US economy such as employment and consumer confidence. The growth estimate beat market expectations, resulting in an appreciation of the US dollar against a number of currencies, including the Canadian dollar.

IMF downgrades growth forecast

The IMF lowered its forecast for global real GDP growth in 2014 by 0.3 percentage points to 3.4%. The downgrade largely stemmed from the first quarter contraction in US real GDP, as well as a less cheery outlook for emerging markets. The IMF estimate looks conservative, given the strong reading for US GDP growth in the second quarter. Downside risks to the global outlook have risen slightly, largely due to heightened political tensions in Ukraine and the Middle East.

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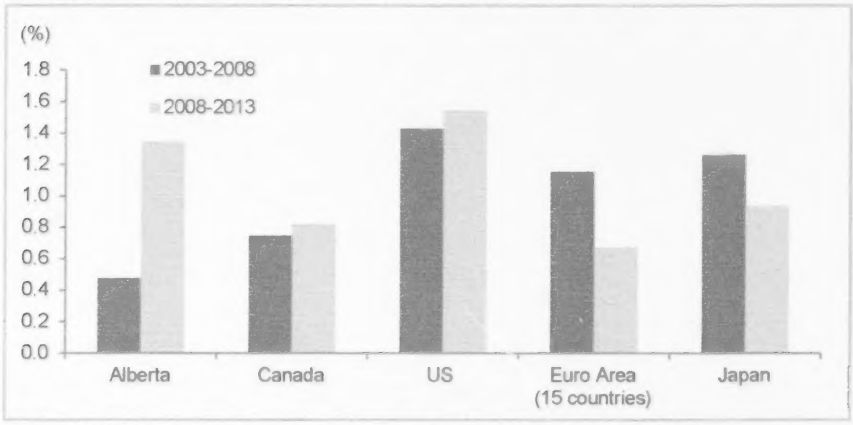
inFocus

Alberta's recent productivity performance

Alberta has had one of the highest levels of labour productivity in the country for a number of years. Productivity has recently increased in many of the major industries, including key players such as mining, oil and gas extraction. Using the latest productivity data from Statistics Canada, this InFocus found that:

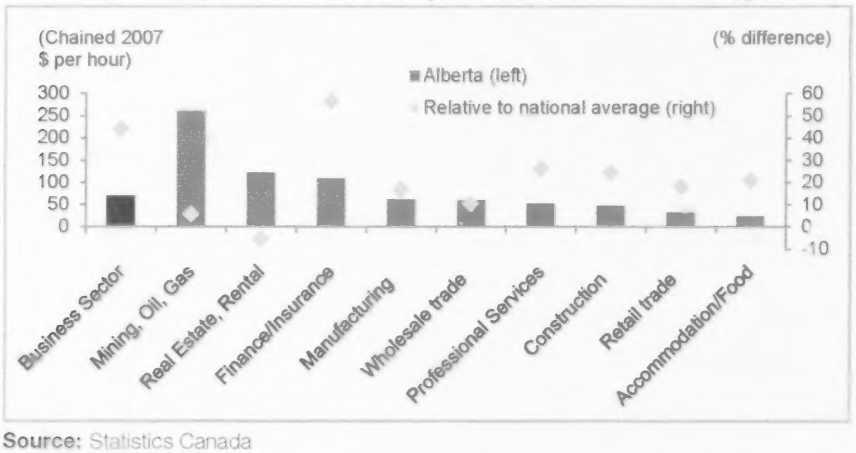
- Labour productivity growth has picked up over the last five years, primary due to improvements in mining, oil and gas extraction and construction.
- Alberta has outpaced most other provinces over the last five years in productivity growth, although it has lagged the US.
- Alberta's level of labour productivity remains above the Canadian and US average, fueled by the oil and gas sector, but it also reflects a broad-based advantage across most industries.

Chart 1. Alberta's productivity growth exceeds national average, but lags US
Average labour productivity growth*, 2003-2008 & 2008-2013



Source: Organisation for Economic Co-operation and Development (OECD), Alberta Treasury Board and Finance, Statistics Canada
* Alberta's productivity values were adjusted to 2005 purchasing power parities

Chart 2. Alberta posted above-average productivity in majority of industries
Alberta productivity levels and percentage difference to national average in 2013



Source: Statistics Canada

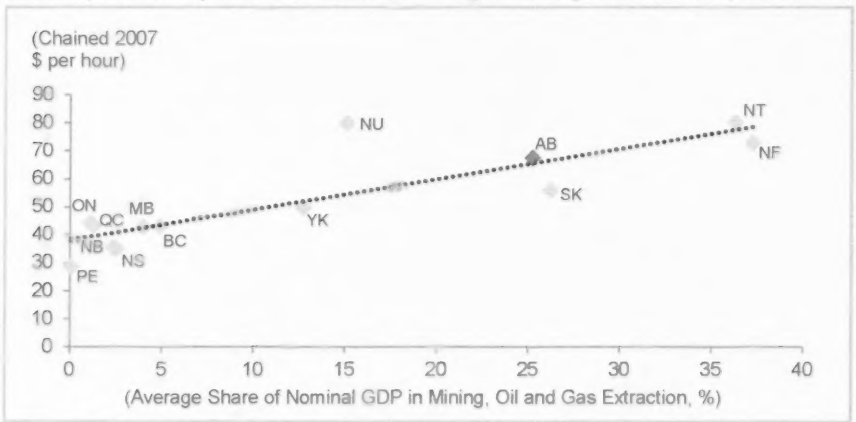
Canada's productivity growth has been weak across industries and regions

Faced with an aging workforce and intensifying global competition, national economic prosperity hinges more and more on improving labour productivity, that is, increasing the amount of value-added output (gross domestic product, or GDP) for every hour worked. Despite its integral role in impacting living standards, Canada's labour productivity growth has been weak compared with several advanced economies, especially the US (Chart 1). This is highlighted by the fact the productivity gap between the US and Canada continues to grow, increasing from 22% in 2003 to 26% in 2013. Lagging productivity in Canada, however, cannot be narrowed down to certain industries or regions: lackluster productivity growth has been experienced in nearly all industries and in nearly all provinces – including Alberta – during the past decade. Alberta's productivity level is slightly higher than the US average as of 2013, but productivity growth has generally lagged behind the US during the past decade (Chart 1), leading to an erosion in our productivity advantage over the US.

In level terms, Alberta's labour productivity is relatively high

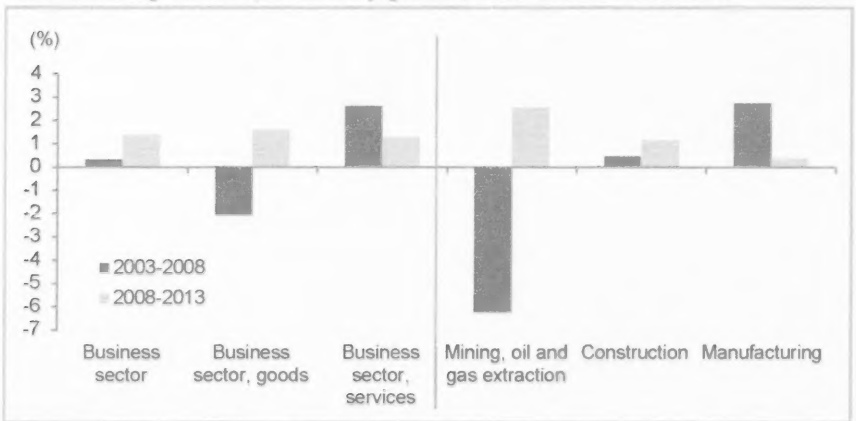
Alberta has consistently posted one of the highest labour productivity levels in the country for a number of years; in fact, Alberta had the second-highest productivity level among the provinces in 2013 after Newfoundland and Labrador (see Chart 4 of the *Weekly Economic Review* released on June 20th). Alberta achieved above-average levels in almost every major industry that year, including many of the service-based industries, particularly the large finance/insurance industry (Chart 2). Alberta has also benefited from significant contributions from the mining, oil and gas extraction industry, which typically has a productivity level substantially higher than most of the other industries, largely thanks to its exceptionally high capital-intensity. A very similar result can be found in other regions where the mining, oil and gas extraction industry has a strong presence, such as Saskatchewan, Newfoundland and Labrador, the Northwest Territories and Nunavut (Chart 3).

Chart 3. Mining, oil and gas extraction support higher labour productivity
Labour productivity and GDP share in mining, oil and gas extraction (2008-2013)



Source: Statistics Canada, Alberta Treasury Board and Finance

Chart 4. Gains in oil and gas extraction, construction have lifted productivity
Alberta average labour productivity growth, 2003-2008 & 2008-2013



Source: Statistics Canada, Alberta Treasury Board and Finance

Good industries lift productivity

The average growth in productivity from 2008 to 2013 in Alberta's business sector was 1.4%, which is slightly above the national average of 0.8% and marks a decent improvement from the 0.3% average growth rate during the preceding five years (Chart 4). From 2003 to 2008, productivity gains in the services sector (2.6%) were almost entirely offset by declines in the goods sector (-2.1%), resulting in the disappointing overall growth. In contrast, Alberta achieved above-average productivity gains in most of the major industries from 2008 to 2013; most notably, productivity surged in the mining, oil and gas extraction industry to 2.6%, benefiting from increased production from the oil sands. In addition, Alberta's prominent construction industry increased slightly from 0.5% to 1.2% over the same period. These two industries played a pivotal role in Alberta's above-average improvement in overall labour productivity.

Future crude oil production from oil sands could boost productivity

Much of Alberta's relatively sluggish productivity growth from 2003 to 2008 can be attributed to the massive amounts of engineering construction for the oil sands, which is labour-intensive and often comes with no immediate impact on commodity production. Unlike shale oil development in countries such as the US, crude oil production from the oil sands takes several years to begin, a time lag that has weighed on overall labour productivity. As more oil sands projects come on line, however, Alberta's overall productivity should get a lift in the near future. Further technological advances in the oil extraction process would also support further gains in the industry's productivity.

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